

CITY OF NEWPORT BEACH, CALIFORNIA

*SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS*

JUNE 30, 2011

CITY OF NEWPORT BEACH, CALIFORNIA

**SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS**

JUNE 30, 2011

CITY OF NEWPORT BEACH

TABLE OF CONTENTS

June 30, 2011

	<u>Page Number</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	1 - 2
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with <u>OMB Circular A-133</u> and the Schedule of Expenditures of Federal Awards	3 - 4
<u>Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs</u>	
Schedule of Expenditures of Federal Awards	5 - 7
Notes to Schedule of Expenditures of Federal Awards	8 - 9
Schedule of Findings and Questioned Costs	10 - 13
Summary Schedule of Prior Audit Findings	14

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of City Council
City of Newport Beach
Newport Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach (the City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as finding numbers 2011-01 and 2011-02 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain other matters that we have reported to management and the City Council in a separate letter dated December 20, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, City Council, others within the City, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Diehl Evans LLP

Irvine, California
December 20, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and
Members of City Council
City of Newport Beach
Newport Beach, California

Compliance

We have audited the City of Newport Beach's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 20, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management, City Council, others within the City, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Nickl Evans LLP

Irvine, California

February 13, 2012, except to the date of the Schedule of Expenditures of Federal Awards to which the date is December 20, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF NEWPORT BEACH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2011

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Commerce</u>				
Passed through the City of Santa Ana: Public Safety Interoperable Communications Grant Program	11.555	2007-GS-H7-2008	\$ 1,043	\$ -
<u>United States Department of Housing and Urban Development</u>				
Direct Assistance: Community Development Block Grants/ Entitlement Grants	14.218	B-10-MC-06-0546	322,526	51,719
<u>United States Department of the Interior</u>				
Direct Assistance: California Water Security and Environmental Enhancement	15.533	06FG350208	198	-
<u>United States Department of Justice</u>				
Direct Assistance: Federal Asset Forfeiture	16.000	(1)	5,679	-
Passed through the State of California: Federal Asset Forfeiture	16.000	(1)	14,460	-
Total Federal Asset Forfeiture			20,139	-
Direct Assistance: Bulletproof Vest Partnership Program	16.607	(1)	21,003	-
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.804	2010-DJ-BX-0324	13,322	-
Total United States Department of Justice			54,464	-
<u>United States Department of Transportation</u>				
Direct Assistance: Highway Planning and Construction	20.205	BRLZ-5151 (015)	725,623	-
ARRA - Highway Planning and Construction	20.205	ESPL-5151	88,396	-
Total Highway Planning and Construction			814,019	-

See Accompanying Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 8 and 9).

CITY OF NEWPORT BEACH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2011

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Domestic Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Transportation</u>				
Highway Safety Cluster:				
Passed through California Highway Patrol: State and Community Highway Safety	20.600	10C061106	\$ 10,000	\$ -
Passed through the City of Anaheim: Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL0848	1,655	-
Passed through the State of California Office of Traffic Safety: Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL1087	39,926	-
Total Alcohol Impaired Driving Counter- measures Incentive Grants I			41,581	-
Total Highway Safety Cluster			51,581	-
Passed through the State of California Office of Traffic Safety: Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1155	146,993	-
Passed through the State of California Emergency Management Services: Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HMEP-0039-09-01-00	6,800	-
Total United States Department of Transportation			1,019,393	-
<u>Institute of Museum and Library Services</u>				
Passed through the State of California Office of Library Services: Grants to States	45.310	40-7519	11,000	-

See Accompanying Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 8 and 9).

CITY OF NEWPORT BEACH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2011

Federal Grantor / Pass - Through Grantor / Program / Cluster Title	Catalog of Federal Assistance Number	Program Identification Number	Federal Expenditures	Subrecipient Expenditures
<u>United States Department of Energy</u>				
Direct Assistance:				
ARRA - Energy Efficiency and Conservation Block Grant (EECBG)	81.128	DE-SC0001808	\$ 853,300	\$ -
<u>United States Department of Homeland Security</u>				
Direct Assistance:				
Emergency Management Performance Grants	97.042	(1)	9,143	-
Passed through the City of Anaheim:				
Homeland Security Grant Program (UASI)	97.067	2008-GE-T8-0006	26,422	-
Homeland Security Grant Program (UASI)	97.067	2008-GE-T8-0006	24,302	-
Passed through the City of Santa Ana:				
Homeland Security Grant Program (UASI)	97.067	2007-GE-T7-0008	14,248	-
Homeland Security Grant Program (UASI)	97.067	2009-GE-T9-0009	62	-
Total Non-profit Security Program			65,034	-
Total United States Department of Homeland Security			74,177	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,336,101	\$ 51,719

(1) Program identification numbers were not provided by the Grantor. As such, this information was not available.

See Accompanying Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Notes to Schedule of Expenditures of Federal Awards (pages 8 and 9).

CITY OF NEWPORT BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2011

1. GENERAL:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Newport Beach (the City). The City's reporting entity is defined in Note 1 of the notes to the City's financial statements. All financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies to the City is included in the accompanying schedule.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting for governmental funds, which is described in the Note 1 of the notes to the City's financial statements.

3. RELATIONSHIP TO COMPREHENSIVE ANNUAL FINANCIAL REPORT:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree to amounts reported within the City's Comprehensive Annual Financial Report.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS:

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with amounts reported in federal financial reports.

5. CONTINGENCIES:

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

6. SUBRECIPIENT EXPENDITURES:

During the fiscal year ended June 30, 2011, the City of Newport Beach disbursed \$51,719 to subrecipients to be used for the federally allowable expenditures in accordance with the grant agreements.

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (pages 5 through 7).

CITY OF NEWPORT BEACH

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)

For the year ended June 30, 2011

7. HOMELAND SECURITY GRANT PROGRAM EXPENDITURES:

The Schedule of Expenditures of Federal Awards for the year ended June 30, 2011 contains the following federal expenditures of prior years that were not included in prior years' schedule. This information was included at the request of Anaheim and Santa Ana Urban Areas Security Initiative:

United States Department of Homeland Security:

Passed through the City of Anaheim:

Homeland Security Grant Program (UASI)	97.067	2008-GE-T8-0006	\$	20,393
--	--------	-----------------	----	--------

Passed through the City of Santa Ana:

Homeland Security Grant Program (UASI)	97.067	2007-GE-T7-0008	\$	14,248
--	--------	-----------------	----	--------

See Accompanying Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 3 and 4) and Schedule of Expenditures of Federal Awards (pages 5 through 7).

CITY OF NEWPORT BEACH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2011

1. SUMMARY OF AUDITORS' RESULTS:

- a. The auditors' report expresses an unqualified opinion on the financial statements of the City.
- b. Two significant deficiencies disclosed during the audit of the financial statements are reported in this Schedule. See Finding Numbers 2011-01 and 2011-02. None of the deficiencies are material weaknesses.
- c. No instances of noncompliance material to financial statements of the City, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- d. No significant deficiencies in internal control over compliance of major federal award programs are reported.
- e. The auditors' report on compliance for the major federal award programs for the City expresses an unqualified opinion on all major federal programs.
- f. No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
- g. The threshold used for distinguish between type A and type B programs was \$300,000.
- h. The programs tested as major programs were:

Minimum Penalties for Repeat Offenders for Driving While Intoxicated - CFDA #20.608
ARRA - Energy Efficiency and Conservation Block Grant (EECBG) - CFDA #81.128
- i. The City qualified as a low-risk auditee.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF NEWPORT BEACH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

2. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCY

Finding Number 2011-01

Criteria

An important element of internal control over cash is the bank reconciliation process which enables staff to identify differences between bank balances and general ledger balances and resolve differences timely.

Condition

In our review of the bank reconciliations, we noted that items reported as reconciling items were not recorded timely to the general ledger and the bank reconciliations showed unreconciled differences due primarily to a lack of reconciling credit card receipts.

Recommendation

We recommend that reconciling items be recorded timely to the general ledger and that credit card receipts be reconciled.

Management Response

We concur with auditors' comment and recommendations. There were a few items identified on the monthly bank reconciliation that were carried forward on the bank reconciliation for consecutive months that should have been booked to the General Ledger in the month they were identified. The delay in booking the appropriate journal entry usually occurs in the beginning of the fiscal year when the accountants are most busy with closing entries and the preparation of the Comprehensive Annual Financial Report. While it is important to keep the general ledger up to date, staff relies on a separate daily reconciliation of outstanding checks to manage the immediate cash needs of the City and not the general ledger which tends to have many timing delays. We also concur that the bank reconciliations showed unreconciled differences associated with credit card transactions. While staff is working to improve its technical process of reconciling credit card receipts, due to the volume and complexity of transactions from multiple payments sources, credit card reconciliation has proved to be quite a challenging task for staff. However, staff have been working diligently to resolve these challenges and are determined to master this process during fiscal year 2011-12.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF NEWPORT BEACH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

2. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCY

Finding Number 2011-02

Criteria

The ability to process billing and collect payments should be segregated from the employee who has the rights to access and change customer accounts.

Condition

The Fiscal Specialist has the ability to process billing, change customer accounts, authorize receivable adjustments, edit the receivable master file, collect payments, and post to the subsidiary ledger. This allows the Fiscal Specialist to change customer accounts and the corresponding invoices without management approval.

Recommendation

To improve the segregation of duties, we recommend the City designate an employee independent from billing to perform receivable and customer account changes. In addition, we recommend the software access be modified accordingly.

Management Response

We concur with the auditors' comment. In an ideal internal control environment, we would segregate staff that can update the customer master file from staff that perform billing and billing/receipt adjustment functions. However, in our current environment and limitations on staff, implementing such controls would be cost prohibitive. To mitigate the risks associated with the lack of properly segregated duties, separate staff will be assigned to review an audit trail of changes to the customer master file and billing/receipt adjustments on a periodic basis. Software controls are currently in place that preclude billing staff from posting cash receipts. Further, all refunds require dual signatories as evidence of approval.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF NEWPORT BEACH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)

For the year ended June 30, 2011

3. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT:

None

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).

CITY OF NEWPORT BEACH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended June 30, 2011

There were no significant findings reported for fiscal year 2009-2010.

See Accompanying Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards (pages 1 through 4).